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Economic Conditions
Governmental Finance
United States Securities

New York, April, 1920.

General Business Conditions.

TRADE conditions continue very satisfactory. The volume of retail distribution is undiminished, and although a note of warning is occasionally heard against higher prices, the goods moving into consumption must be replenished, and manufacturers have all the business they want in sight.

The textiles are about as they were a month ago. The market in hides has had a sensational decline, amounting in some lines to 50 per cent, but has recovered a little from the low. Sole leather is much stronger than upper leather, a fact which may be due to the now popular practice of re-soling foot wear. The weakness in hides, however, does not have immediate bearing upon shoes, although if it continues it will have an effect in time. Shoes for the 1920 fall trade are being made now, and of course the leather is in stock.

The iron and steel industry is going strong, with plenty of business in sight for a long time, but there is less talk about a general advance of prices.

The anxieties about foreign trade and tight money have been allayed at least temporarily by the recovery of sterling and the importations of gold, but the situation continues to have enough of disquieting elements. The tendency to higher costs is chief of these. The prospective advances in railroad charges and coal-mining costs will affect the entire field of industry, and there is a feeling of unsettlement in many industries as to the labor situation. The building program is threatened by further demands and complications.

Agricultural Conditions.

The market talk about the next wheat crop is not reassuring at the moment. The acreage in winter wheat is short and the crop is said to be not in prime condition. Just now the southwestern states are very much in need of rain. Moreover reports from the spring wheat states of the northwest say that the acreage this year will not be large.

Weather conditions have not been favorable to an early start in cotton-planting and labor conditions are against putting in a large crop in short time. The price of cotton for March delivery in the last week of that month reached 43 cents, the highest figure touched in fifty years, and although it has since receded to below 40, it is still high enough presumably to stimulate a large planting if the labor can be had to do it.

Labor Shortage on Farms.

Reports are general that labor is very scarce upon the farms and that production will be reduced in consequence. Many young men who went into the army from farms have not returned, and the high wages and short hours now prevailing in the manufacturing industries continue to attract the young men.

A Bulletin dated March 20, 1920, issued by the Extension Service of the Department of Agriculture, cooperating with the New Hampshire College of Agriculture, gives the result of a canvass just completed of 320 farms in New Hampshire. These farms are said to be somewhat above the average in size and amount of labor employed, but otherwise representative of agricultural conditions in the state. The Bulletin says as to the result of its inquiries:

> 48 farms report that they expect to be able to maintain their normal production of crops, livestock, and livestock products during the coming season. In every case but two, this is stated to be providing they are able to retain their present hired help.
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> 266 farms report that they will be obliged to curtail production of their staple products during the coming season, due to the lack of help. The average of these statements is that crop production will be decreased 41 per cent under the normal for these farms; and that production of livestock and livestock products will be decreased 37 per cent under the normal for these farms.

A similar canvass in New York state has yielded similar results. The reports show clearly that the situation is getting seriously out of balance. If there are any people who still think that wages can be pushed up in the town industries without limit and the hours of labor still further curtailed, at the sole expense of employers, their attention is invited.

Financial Affairs.

The money market is about as it was a month ago, so far as interest rates are concerned. Loans to bank customers are on a straight 6 per cent

basis in obedience to the usury law, but commercial paper sells on a 7 per cent basis and better. First class collateral loans yield 7 per cent, and with collateral not so well known up to 8½ per cent. During the last week of the month call notes were fairly uniform at from 7 to 9 per cent, but got down as low as 6 and up as high as 14.

Land settlements in the middle west were accomplished on March 1 without any disturbance. The payments were very large and caused unusual fluctuations in bank deposits in some localities for a few days, but these effects were temporary. Reports scarcely mention defaults, and evidently they were negligible in number, as land values are said to be firm or advancing.

The Federal tax payments due March 15 were accomplished without much resort to the Reserve banks, the total bill holdings of the latter on March 5 being $2,922,542,000 and on March 26 $2,901,109,000. Payments were effected largely in Treasury certificates.

The position of the Reserve banks is slightly easier than it was a month ago. The total earning assets on February 27 aggregated $3,279,232,000, and on March 26 they were $3,191,031,000. Total gross deposits were $2,911,302,000 on February 27 and $2,541,692,000 on March 26. Federal reserve notes in actual circulation were $3,019,984,000 at the former date and $3,048,039,000 at the latter date. The reduction of liabilities helped to maintain the reserve percentage despite gold exports. The ratio of total reserves to combined deposits and notes was 42.5 on February 27 and 42.7 on March 26.

There is much evidence that one explanation of the high state of bank loans is to be found in the railroad embargoes and car shortage. Conditions in New England have been very bad for the past month, with goods piling up in the manufacturing towns and consequent inability to bill against them. In Boston it is said that approximately $100,000,000 worth of Egyptian cotton has been tied up partly by a port strike and partly by the governmental requirement that such imports shall be fumigated as a precaution against the pink bollworm.

Governmental Finances.

The officials of the Treasury express confidence that the March revenues from income and excess profits taxes will exceed the estimate of $850,000,000 upon which recent Treasury calculations upon the year's revenues have been based. Unless its forecasts are upset by large appropriations by Congress for new objects of expenditure, such as the bonus for ex-soldiers, the floating debt will be materially reduced in the current fiscal year which ends June 30, 1920, and again in the following fiscal year. This is greatly needed as a step in deflation.

After the retirement of Treasury certificates due March 15 there remained outstanding the following:

Maturing June 15	$728,130,000
Maturing Sept. 15	657,469,000
Maturing Dec. 15	703,026,000
Total	$2,088,625,000

Another offering was made on March 15 of tax certificates bearing 4¾ per cent, which has been closed, it is understood, with about $200,000,000 subscribed. A further offering at the same rate has been made, dated April 1 and maturing in three months.

The Credit Situation.

The whole credit situation was helped very much sentimentally by the announcement that the British and French governments would pay the $500,000,000 joint loan which will become due in October next. It was a moral tonic which had immediate effects. Proof that these countries were not bankrupt was hardly necessary, but sentiment in the exchange and investment markets had been despondent to a degree that required a cheerful surprise of this kind to dispel the prevailing pessimism. The announcement had that effect for several reasons, the most influential of which, perhaps, was the promise that a considerable amount of gold would be forthcoming which would serve to replenish our reserves and make good the losses which we have seemed destined to suffer by exportation to Argentina and Asia.

The gold situation was on everybody's nerves about March 1st, and we discussed it at some length in the March Letter. The excess of gold exports over imports in January was $35,740,487, and in February $38,527,000, a total since January 1st of $74,267,487, and the margin of excess reserves in the Federal reserve system was so narrow as to arouse misgivings that more drastic action might be taken by the authorities for the reduction of loans. The announcement that the loan would be paid, together with a rumor that gold shipments would begin at an early day, instantly relaxed the tension. At about the same time, the demand for gold on account of India eased off in London to such an extent that two lots aggregating about $3,000,000 were obtained for the United States, and another $3,000,000 came in from Canada. Altogether, these incidents had the effect of making everybody more cheerful, although they have not worked any radical change in the immediate situation.

It still remains to be developed how much gold will come in payment for the Anglo-French loan. It is known that the British government has been accumulating credits here by the sale of American securities and Australian wool, and has been buying the Anglo-French notes in the open market. Probably its share of the loan will be largely cared for in that way. It is not so clear how the French government will take care of its half of the undertaking, but special efforts have been made to bring the last internal loan to the attention of investors in this country, and the subscriptions

doubtless have aggregated a considerable amount. The first installment on the gold payments, approximately $9,000,000, arrived on March 28. The fact that shipments have begun so early indicates that the total amount is expected to be a large sum.

No Basis for More Credit.

The most that can be said for this promise of gold is that it relieves to some extent the anxiety as to diminishing reserves. It affords no reason for expecting a renewal of credit expansion. The Federal Reserve authorities have been moving cautiously in their policy of freeing the reserve banks from war paper and getting those institutions back into normal condition, but there is no reason to doubt that they are firm in the purpose. Whatever gold is received will be all needed to provide against the exports which must be counted upon, and it would be very short-sighted to modify the loan policy which has been adopted. With the credit expansion of the last year as a warning, and the revelations which are being made of speculative investments by means of bank credit in sections of the country where liquidation might have been rapidly accomplished, it is plain that for the good of the country the situation should be held firmly in hand. The country should be urged to pay its debts and practice for a time the old-fashioned policy of earning and accumulating before spending or investing. That is the only way of getting fore-handed, of getting control over the price situation or of bringing bank liabilities into proper relations to the bank reserves.

Argentine Gold Imports.

There is a renewal of reports that the Argentine government will grant a loan of $200,000,000 to Great Britain, France and Italy to enable those countries to buy Argentine products. A bill for this purpose passed the Chamber of Deputies several months ago, but as it has never come to a vote in the Senate the conclusion was drawn that the latter body was probably against it. Well-informed persons now express the opinion that sentiment for the loan is growing, as it is needed to assist the country in marketing this year's crops.

If the Argentine loan is granted it will be likely to curtail the three-cornered transactions by which gold has been forwarded to Buenos Aires from the United States on British account.

Foreign Trade and the Exchanges.

Foreign trade in February was down $84,000,000 in merchandise exports and about $6,000,000 in imports from January. There seems to have been no marked change in the character of the trade. Exports of meats and dairy products were light.

Sterling exchange has made a great recovery since it touched the low mark of $3.18 early in February. This seems to have been due in part to the sentimental effect of the announcement that the Anglo-French loan would be paid, even if gold must be shipped for the purpose. Gold shipments to pay the loan could have no bearing upon commercial exchange rates, while if resort was had to the exchange market for any part of the means of payment the effect would be adverse. Nevertheless, British and French credit rose sentimentally and both sterling and francs reflected the gain.

Sterling continued to gain, doubtless because supply and demand have favored the rise. Offerings of sterling bills have been light throughout the month, while the demand for sterling has been good. Although cotton continues to go out at a good rate, apparently the bills have not come on the market. The situation has caused some strengthening of opinion that perhaps the worst has been seen in sterling. We are getting into the season of the year when our exports of agricultural products usually decline, and British exports are steadily increasing.

On the other hand the French and Italian exchanges had a relapse in the latter part of the month, falling nearly to the lowest points heretofore touched.

The table of monthly quotations is as follows:

	Unit Value	Rate in cents Feb. 28	New rate Mar. 29	Change from Par	Depreciation in %
Canada	1.00	.8600	.9230	.0770	7.7
Germany ...	.2382	.0105	.0135	.2247	94.3
Italy	.1930	.0543	.0503	.1427	73.9
Belgium	.1930	.0727	.0730	.1200	62.1
France	.1930	.0702	.0695	.1235	63.9
England ...	4.8665	3.3800	3.9450	.9215	18.9
Switzerland.	.1930	.1613	.1750	.0180	9.3
Holland	.4020	.3700	.3725	.0295	7.3
Denmark ..	.2680	.1500	.1875	.0805	30.0
Norway	.2680	.1725	.1925	.0655	24.4
Sweden	.2680	.1875	.2185	.0495	18.5
Spain	.1930	.1740	.1775	.0155	8.0
Argentine ..	.9648	.9850	.9830	*.0182	*1.8
Japan	.4985	.4800	.4750	.0235	4.7

* Premium.

There has been a lessening of the demand for exchange on China and India, and silver has fluctuated widely during the past month, the quotations falling below $1.20 per ounce on very light transactions, later rallying to about $1.29.

Canadian Exchange.

It has been authoritatively stated that recent shipments of gold from Canada to this country were for governmental purposes. The Canadian government has no intention of attempting to restore the exchange rate, and evidently could not afford to do so in face of the heavy balances on trade account and interest account in favor of the United States. In 1917 the balance on strictly trade account was $407,000,000, in 1918 it was $308,000,000, and in 1919, $286,000,000. Besides these balances there has been an increasing indebtedness on account of accruing interest on Canadian securities held in this country. The

total gold reserves of Canada are but little above $200,000,000, and while this is ample for the banking business of Canada, it is evident that it might be all drained away if the embargo was not maintained.

The low exchange rate of the Canadian dollar in the United States does not reflect upon Canadian credit or Canadian currency, and it is a mistake to so regard it. A prominent public man in Canada has been quoted as saying that he would not buy five cents worth from any country which did not accept the Canadian dollar at its face value. But Canadian paper currency was never intended to circulate in the United States, and cannot be used here. Moreover, it probably would not be considered desirable even from the Canadian banking standpoint to have a great increase of their currency issues outstanding in the United States.

The premium upon United States exchange in Canada is not fixed or regulated in the United States. It results from the unbalanced state of trade and from the competition in Canada for Canadian credits in the United States. There are not enough such credits to meet the demand for means of payment. It is a natural trade phenomenon, and illustrates the workings of economic law. In a state of unbalanced trade all the natural influences work to restore the equilibrium. The present situation operates to discourage exports from the United States to Canada and to encourage exports from Canada to the United States. There is no occasion for impatience or ill-feeling about it. The situation is to be regretted, for it is injurious to both countries, but there seems to be nothing to do about it but let the natural forces work it out.

More Government Interference.

The Canadian government has proposed and secured an agreement among resident bond-dealers that the latter will not encourage or grant facilities for the re-sale in Canada of Canadian securities now held without the country. The reason for this policy is that something over $100,000,000 of such securities are estimated to have been resold in Canada within the last ten months, by British holders, and the government holds that this occasions a drain upon Canadian resources, tending to make money tight and depreciate the value of Canadian bonds in the home market. The bond houses have yielded to the government's request but in some instances with vigorous comments upon the wisdom of the policy. They say that it is another instance of the old attempt to eat your cake and have it too. Canada is eager to export her products to England, and of course wants to be paid for them. England is ready to buy them, but the trade balance is heavily in favor of Canada and exchange rates for British sterling are at a discount. The natural remedy is by the return of British-held Canadian securities to the home market. What better medium of payment can Canada expect England to find? Would she rather keep her products and have England keep the securities?

Canadian Gold Production.

The Canadian government is dealing liberally with the gold producers of that country by buying their product at the Ottawa mint and paying them in New York exchange. This is practically the same to the gold operators as allowing them to export their product to the United States and realize the premium, as the exporters of other products are doing, but the Canadian Treasury secures the gold.

Waste of Capital.

The country is plainly suffering from a dearth of investment capital at the present time, at least where it is accustomed to be found and for essential public purposes. The established investment houses which handle high-grade securities find that the market has but limited power of absorption. They are pessimistic about the ability of the railroads to raise the amount of capital required for new equipment, enlarged terminals and other facilities which are required to enable them to render proper service to the public. They ask where the money is coming from to buy new railroad bonds and stocks on a basis of normal returns, when the old issues are selling at present figures.

The investment bankers likewise talk discouragingly about the prospect for selling foreign securities in this country. They agree that the United States ought to buy foreign securities. Every consideration of self-interest and of international relations calls upon us to extend credit to the countries of Europe at this time, but how can it be done in the present state of the investment market? With Liberty bonds selling on better than a 5 per cent. basis, and any number of good bonds and preferred stocks to yield 6 or 7 per cent. and upwards, where is the ground for hope that large sums can be had for foreign investments?

Promiscuous Flotations

But while this is the situation in the regular channels of distribution, there is evidence that a great amount of new capital is available in other fields and that much of it is being dissipated and wasted in ill-advised ventures. The high prices for farm products and high prevailing wages have created a large body of new and inexperienced investors throughout the country who are unfamiliar with the risks of new business enterprises, uninformed as to standard securities and an easy prey to skillful stock salesmen. Even during the war much activity had developed in organizing local companies, but during the past year they have multiplied and the army of salesmen has been increased until every prosperous locality is infested.

The state of Iowa has been an active field for

these efforts, and by the middle of 1918 the situation had become such that the Iowa Bankers' Association passed resolutions warning the public against these irresponsible flotations and urging the members of the association to discountenance them. The resolutions were as follows:

"WHEREAS, we have within this state a swarm of private corporation promoters who are engaged in the business of starting new corporations for the sole purpose of securing promotion salaries, including exorbitant commissions paid to agents for the sale of stock; and as a means of reducing this evil we call upon the bankers of Iowa to refuse the inducements now so freely offered for their influence in making sales of stock in these concerns, most of which are unnecessary, if not unsound.

"We urge the bankers of Iowa to refuse to buy notes given for purchase of such stock.

"We condemn the practice of any bank officer or employee receiving or accepting compensation, directly or indirectly, by reason of his connection with any promotion scheme.

"We further recommend that a law be passed altogether prohibiting the payment of any commission whatever to stock salesmen, promoters, bankers or others.

"We especially urge bankers to refuse to write letters recommending not only the stock as an investment, but also the men connected with the promotion of the enterprise."

The March, 1920, Bulletin of the Iowa Bankers' Association is devoted entirely to the same subject. The first paragraph is as follows:

Never was there a time when more stock promotion schemes have been foisted upon the people of this state. Promotions of every kind, description and color are being presented to the unsuspecting farmers, wage-earners and others, but particularly to the farmers. There is probably not a banker in Iowa who cannot tell of some "hair-raising" procedure, under which "smooth-tongued" and "glib" stock salesmen have loaded some farmer customer. The more warnings that have been issued by business and professional men, bankers, farm organizations and commercial clubs, the greater the number of "suckers," as they are termed, are uncovered by the army of stock salesmen with which Iowa is infested.

A prominent feature of the operations of these salesmen has been the exchange of their stocks for Liberty bonds.

The Des Moines Daily Capital, discussing recently the collapse of a corporation the stock of which had been sold to the extent of over $3,000,000, said:

The industry of stock-selling in Iowa has been almost without limit. Men with gifts for salesmanship left other occupations to become stock sellers. Their number has been so large that they have held meetings for discussion of ways and means of stock-selling. The people were found to be easy marks. They yielded up their cash readily. If they could not pay cash they gave their notes and the notes were discounted at the banks. The commissions paid to stock salesmen have been stupendous. The business developed many varieties of ingenuity. Stocks were sold at par. If the sales were easy stocks were advanced to a large premium above par. In some cases the salesmen contracted for the stock at a certain price with an agreement that all above that amount was to be theirs.

The large and unnatural amounts made by stock sellers has done great damage to legitimate industry. It will be hard to make a young man content to work for $40 per week in some legitimate business after he has put in a year in stock selling at a profit of $5,000 per month. There were stock salesmen, plenty of them, who were making $2,000 per month. Others made $3,000 per month, and in some cases the sums were beyond all reasonable comprehension.

Specimen Operations.

The method of some of these flotations is illustrated by the following statement from a prominent man, who had been a member of the Iowa State Senate, and who was an official of a company organized to manufacture farm tractors. The stock was put on the market, and the methods of the flotation were such as to bring the company into court. The official made the following explanation:

"We made a contract with this firm granting them exclusive right to purchase our stock at a stipulated price upon their paying in advance for same. Most of their sales were on the installment plan. Under this arrangement the broker paid us a total of $13,000, for which we issued stock in the Farmers' Tractor company. In the meantime the firm assured us repeatedly they had sold upward of $100,000 and would soon begin turning over to us large sums of money. We later discovered the broker had collected $66,000 as partial payments on stock sold. We had received but $13,000."

Another case is reported as follows:

STORM LAKE, Ia., Feb. 17.—Suit has been filed by Charles J. Schmitt, of Maple Valley township, against the Midland Cattle company, asking that certain moneys and promissory notes given by the plaintiff for stock in the company be returned to the plaintiff.

The petition alleges that he has paid money and given notes to the company for $20,000 worth of stock. The plaintiff alleges that it was represented to him that the company would be able to secure money from the federal reserve bank at 3 per cent and that the profits of the company would run as high as 40 per cent. The petition sets forth that he originally bought $10,000 worth of stock and that later it was represented to him that if he would take $10,000 more in stock the salesman would re-sell it for him before the notes came due at not less than $125 per share, or a profit of $25 per share. He took another $10,000.

The First National Bank of Sheldon, Iowa, has recently published a warning advertisement in local newspapers reading in part as follows:

A certain retired farmer in Sheldon recently purchased around $40,000.00 of stock in a speculative enterprise located not many miles from here, and the other day the promoter was in Sheldon offering this retired speculator's notes to the Sheldon banks at $10,000.00 discount.

Needless to say the banks of Sheldon did not want paper on a man who plunges into debt in this reckless manner.

The promoter selling the stock probably gets another $10,000.00 for his profit, that makes $20,000.00 for closing a $40,000.00 deal.

In other words the expense takes half the money at the start. It must be a shady deal that takes half a man's money at the very beginning. Probably the other half will be taken from him shortly.

A Meat Packing Company.

Another case of state-wide interest was that of a company organized to establish a meat packing establishment at Des Moines. In this case an especial appeal was made to farmers, upon the representation that it was intended to give them an opportunity to enjoy the profits which had been long monopolized by the "big interests." They were told that the stock of the large Chicago companies was closely held and unobtainable, although several of these stocks are traded in daily on public exchanges. Swift & Company have 35,000 stock holders.

The Armour preferred 7 per cent stock, a choice investment, is changing hands at about par, while Swift & Company common, paying 8 per cent and having a bona fide book value of about $160 per share, is selling at this writing at about $123 per share. These prices are low, but they have been low for several years, owing to the over-burdened state of the investment market. Sales are reported daily in the Chicago newspapers, which circulate all over the state of Iowa, but with this opportunity to get into these old companies, with their experienced organizations, established business and long record of successful operation, thousands of farmers bought stock at par in this new promotion, which doesn't even own a packing plant, and confessedly had yet to create an operating organization and build up a business. Moreover, a large percentage of what they paid for this stock was absorbed by promotion expenses. The attorney-general of the State alleges that the company is insolvent before beginning to put up its buildings and at his instance a local court has appointed a permanent receiver. Over $3,000,000 of stock was sold.

Extravagant Commissions and Discounts.

The editor of the Iowa Homestead, a farm journal published at Des Moines, describes a common procedure in such flotations as follows:

> Let me show how a large number of the heavily capitalized companies, now selling stock to farmers in the state, through salesmen paid large commissions, are operating. They sell stock to a farmer to the amount of $1,000 on which the company receives notes for $750, the remaining $250 having been pocketed by the stock salesman. This note for $750 is offered to some bank at a discount of say 10 per cent, which is $75 off on a note of $750. Even then the purchasing bank seldom desires to pay out actual cash, but often issues a certificate of deposit, without interest, due at the maturity of the notes. For the $1,000 worth of stock subscribed for, the company now holds a certificate of deposit for $675—the original $1,000 less the $250 paid the salesman and the $75 discount allowed the purchasing bank.
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> The companies are nearer their ready cash than before, but they do not have the real money. The certificate of deposit in the purchasing bank is offered a second bank and again a discount is made, often running as high as 15 per cent. This means that the company offers the $675 certificate of deposit for $573.75, which is 15 per cent less than the face value. The company now has its money (when the second bank buys the first bank's certificate of deposit), but it has only $573.75 for $1,000 worth of stock. In a word, it starts out whatever business it may or may not venture into, with but little more than one-half the cash which it is supposed to have, for the stock subscribed.

Competent authorities have estimated that the aggregate of stock in new companies floated in the State of Iowa last year would amount to several hundred millions of dollars, and a large part is classed as highly speculative.

A Kansas Scheme.

These operations have been going on in like manner in other states, oil companies being the most common. A Topeka letter says:

> The rise of the "unit" system made a particular appeal to the speculative investor. The one-eighth royalty retained by the land owners was the basis of high finance. Purchasing, say, one-tenth of one-eighth for $10,000 in a field where some production had been found, this fraction was capitalized into thousands of units, each purporting to be an undivided interest in the fraction. In some instances a $10,000 fraction was the basis for 100,000 units sold at $20 each, and these were scattered over the State with a rapidity that made many fortunes. In one instance the units numbered 5,000,000 at 10 cents each. Complaints to the blue sky board showed that some owners of units would not receive 1 per cent on their investment until the property, yet to be developed, yielded $3,000,000 worth of oil. Widows' estates were frequently wholly invested in these securities.

Loss of Capital.

The loss of capital which results is deplorable not only on account of the investors who have been defrauded, and who in many instances have anticipated future earnings in which they may suffer further disappointment, but on account of the country's present great need for capital.

The country faces a critical situation as regards the railroads. They need literally billions of dollars for equipment and improvement, but the regular channels of investment are over-filled with offerings, and of course the railroads cannot offer inducements to compete with these fake propositions which are gathering up the available capital of the rural sections. While this saturnalia of waste has been going on in Iowa there has been serious protest within that State against the new railroad law, providing that rates shall be sufficient to allow the roads to earn in the aggregate an amount equal to 5½ per cent upon their total actual value as determined by the Inter-State Commerce Commission. As we have repeatedly pointed out, this is not a guaranty upon outstanding railroad stocks or to the individual roads, but of an aggregate sum for which the roads must compete. Now that the promotion period in railroads is past, and every entry in railroad property accounts is supervised by the Inter-State Commerce Commission, why should not all parts of the country contribute to the sum of new capital needed to restore the operating efficiency of the roads? Iowa and Kansas have suffered millions in losses during the past six months be-

cause of inadequate transportation facilities, and there can be no relief except as the railroad companies are able to raise new capital, which in the present world situation is very difficult. Now that the railroad act is a law, would it not be well for the people of these western states, where money seeks investment so eagerly, to either refrain from attacking it as too liberal to investors, or take some of the railroad investments themselves?

People do not sufficiently realize the public interest in capital accumulations, and the public loss when savings are wasted. The Iowa Bankers' Association is to be commended for its action touching upon stock flotations. The bankers have far more to gain by safeguarding their communities against doubtful investments than from any profits that such transactions may yield incidentally to them.

Credit Expansion and Tight Money.

Inasmuch as stock sales seem to be commonly financed by promissory notes, which are disposed of to local banks, the campaign described above evidently has contributed to the state of inflated credit and tight money which exists over the country.

The great activity in farm lands has been another important factor. It is not to be regarded in the same light as the flotation of worthless stocks, for there is a basis of real values even though the movement may be overdone for a time, but farm sales must have tied up a large amount of capital. A trust company in Des Moines has conducted an inquiry which reveals that sales of 19,600 farms were closed up in Iowa on March 1st last, the custom being for farm transfers contracted during the preceding year to be made at that date. The aggregate amount involved in those transfers is not given, but other reports show that in each of several counties the total was approximately $10,000,000.

That there has been no check as yet to the land movement is indicated by the following press report, which is remarkable in view of the number of acres in the tract:

SPENCER, Ia., March 13.—What is believed to be the biggest real estate deal made in recent years in the state of Iowa, was consummated by Robert T. Colter of Spencer when he bought the well known Allan Grove Farms, adjoining the town of Hospers in Sioux county. Posession will be given March 1, 1921.

Mr. Colter paid $900,000 for the tract of 2,322.86 acres or an average of $387,457 the acre. Mr. Colter came to Spencer from Muskogee, Okla., last May and bought of M. E. Griffin, 1,571.48 acres for $353,583. By August he had disposed of his holdings for a total of $457,647.75, making a net profit of $104,064.75 in three months.

The land salesmen have been reaping a great harvest in commissions. In recent litigation involving a land-selling company, one salesman testified that he had received $455,000 in salary and commissions for seven months' work.

Federal Taxes.

The Secretary of the Treasury has submitted to the Chairman of the Ways and Means Committee of the House of Representatives a series of recommendations for the simplification of the excess profits and income taxes, and a reduction in these levies after 1922 so far as income re-invested in industry is concerned. The Secretary says that in his opinion it would be unsafe to reduce now the income and profits taxes to be collected in the calendar year 1920 and 1921, which he is counting on to retire the present floating indebtedness, but he can see nothing in the financial prospects for the calendar year 1922 or thereafter to forbid the changes which he recommends. His proposals include several not materially affecting the revenues, but the notable features are the recommendations that a flat tax upon profits in excess of distributed earnings be substituted for the present graduated rates of 20 and 40 per cent, and that the surtaxes upon personal incomes be reduced as to that portion of incomes which are saved and re-invested in business.

"No reduction," says the Secretary, "is urged in respect to income spent for unnecessary or ostentatious consumption; income saved and invested in property or in business yielding a taxable income should be taxed at a lower rate; income spent for consumption or invested in tax-exempt securities should pay at established rates, both the normal tax and sur-taxes. To the extent that it falls on savings the income tax should be reduced; to the extent that it falls on waste it should be maintained or even increased."

This is the first clear recognition that has been given from an official source of the truth that earnings and profits which are saved and converted into productive capital should be regarded in a different light from income which is spent and consumed for the personal benefit of the owners.

The Public Interest in Industry.

There has been no recognition of this fact in our tax legislation and there is little recognition of it in current discussion of wealth distribution. It is commonly assumed that all income inures wholly to the benefit of the recipient and that all property is devoted wholly to the benefit of the owner. The radical doctrines of the day are based upon this assumption, although common observation shows it to be false. The industries are all privately owned, but they are engaged in producing for common consumption, and all development and improvement in them inures to the benefit of the great body of consumers.

To whatever extent the profits of an industry are turned back into the industry to enlarge and cheapen production, the public enjoys the benefits. It is only to the extent that the owners withdraw profits for expenditure upon themselves that they receive benefits. We referred some

months ago in illustration of this principle to the case of Jackson Barnett, an Indian, of Oklahoma, who has a large income from oil wells upon his land, but who has continued to live simply, upon an expenditure of about $50 per month, while investing over $800,000 in Liberty bonds. He is consuming no more, withdrawing no more from the common social supply, than before he became wealthy. His income has been turned over to the United States Government for its uses. It is true that he receives interest upon this investment, but if he re-invests the interest the situation remains unchanged.

This illustrates the general situation as to wealth distribution. All wealth employed in production for the public market is socially employed, and may be regarded as a social fund, in the same sense as though the title to it was actually in the State. The real distribution of wealth, therefore, is not to be measured by ownership but by consumption.

When this view is accepted it will be seen that so far as practicable taxation should be levied upon that part of a rich man's income which is devoted to private consumption rather than upon that part which is returned to industry and devoted to public purposes. The grievance of society against large private incomes is confined to that portion of such incomes as may be dissipated in undue and wasteful private consumption.

An Economic Demonstration.

The high taxes upon business profits have demonstrated to the satisfaction of everybody who has had opportunity to become familiar with their workings that the doctrine of confiscation is fallacious. They have accomplished a convincing exposure of the falsity of the whole socialistic theory, that you can seize upon the product of an individual's labor without diminishing his interest in production. These taxes, it is agreed, have not only diminished the amount of capital available for the expansion of industry and reduced the incentive to enterprise, but they have encouraged extravagant and wasteful expenditures, resulting in loss to the revenues as well as to industry. They violate the recognized principles of social economy.

Profits and Taxes of a Coal Company.

A correspondent has laid before us an illustration of the unjust workings of these taxes, in the case of a coal company which began operations less than five years ago. The case is the more interesting because coal companies are alleged to have made exorbitant profits. For the first three years of its life this company's operations resulted in cumulative losses, but in the year 1918 with a large output and good prices it made a profit which reimbursed it for the previous losses with enough over to yield about 2.4 per cent interest on the investment, but the government levy took all the net gain and a part of the recovered capital. We take the liberty of using the following extract from a private letter relative to this case, suppressing names, for the light it gives upon the general effects of this taxation:

The case of the coal company is a good illustration. Its operations for 4⅜ years with an average invested capital of $575,000.00 shows a profit of a little less than 2.4% per annum, yet this modest profit, as well as part of the capital of a company several of whose stockholders are poor, and have small amounts invested, and sorely need a little income from them, is taken bodily by the government whose financial experts admit frankly and cheerfully that the proceeding is stupid, outrageous and confiscatory. It might be thought that this is a very exceptional case, but it is not. There are thousands of cases closely resembling this one. Certain lines of business which have fairly even profits from year to year such as banks, railroads, public utilities, etc., are not apt to be hard hit by the excess profits law, but a large number of concerns in mining, iron, steel, and many other lines which are proverbially in the "Prince or Pauper" class are its victims. The iron and steel business, as you are no doubt aware, has for the last forty years been running in cycles of about seven to nine years making little or nothing, or perhaps running a little behind for say, five or six years and recouping in one or two boom years. It is easy to see how in such cases a tax like that of 1918 if imposed over many years could easily take all the profits over these same years.

England in such cases takes the average income for four years, combining that of the preceding three years with that of the year taxed. Mr. Roper's experts also freely admit that this is a very much better method than ours.

This kind of taxation, of course, increases enormously the cost of commodities. It might be that in the case of a single company an increase in its costs would not allow it to raise its prices, but in a business like producing coal, for example, if the cost of say, 20% of the production of the country is raised a dollar a ton the price to all consumers is raised correspondingly just as surely as if the cost of all producers were raised the same amount. The effects of raising the costs of necessaries by unfair taxation are worse than those of increasing prices by profiteering. The latter ceases quickly when real competition starts. The increase of costs on the other hand persists and it may take years of hard struggling accompanied by strikes, riots and misery to get down to normal again.

The system in practice is apt to work out about as follows:

The managers of a works don't feel much like working themselves to a frazzle if they know that all the results of their energy will be confiscated and they may, if their plant is showing fine profits, become unduly liberal in adjusting wages. A foreman asks for a raise of $1,000.00 a year. Ordinarily $200.00 would be considered about right, but the management feel in the back of their heads that if they don't give this man $1,000.00 the government will take $824.00 of it and waste most of it at Muscle Shoals or some other place where work is done in an equally wasteful fashion, and they grant the increase. All this is easy, but when they later on have to come down to earth again it will be a different story.

If this country could have a reasonable tax law in the near future and would promptly repeal the Lever Act and stop people with the presidential bee in their bonnets from rushing in and abolishing the laws of nature and economics by injunction, it would save this country an amount of toil and misery over the next twenty-five years which would stagger the imagination.

If we had a well devised tax on the sale of commodities the people of this country would pay the

amount of revenue received by the government. Under the present scheme they probably pay from five to ten times that amount. While some of the difference goes to the profiteer a vastly greater portion is eaten up in the extravagance, waste, loss of efficiency and general demoralization, and the lowering of the morale of industrial organizations which are sure to accompany such a faulty system.

In this connection it may be noted that William B. Colver, of the Federal Trade Commission, speaking before the National Wholesale Drygoods Association, characterized the excess profits tax as "one of the corner-stones of the present unhealthy and intolerable price structure in the country". The tax, he said, was not designed as revenue measure, but as a profits equalizer between different cost producers under fixed price system during war. Tax is passed on until four or five dollars is taken out of some one's pocket for every dollar reaching the Treasury. Mr. Colver declared commodity prices must come down of their own accord or they would be forced down by world conditions affecting American prosperity.

Weakness of Governmental Management.

In taking leave of official life at Washington, the Hon. Franklin K. Lane, after seven years in the President's cabinet as Secretary of the Interior, following a somewhat larger experience upon the Interstate Commerce Commission, closed a very interesting review of his administration of the Interior Department with a few pertinent and instructive comments upon official life and governmental activities. They are especially pertinent at this time, when so many people of comparatively little practical experience in affairs themselves are strongly inclined to enlarge the official functions by having the government embark upon industrial activities. That part of his statement is as follows:

And now in parting, let me say a general word as the fruit of my experience here. Washington is a combination of political caucus, drawing room and civil service bureaus. It contains statesmen who are politicians and politicians who are not statesmen. It is rich in brains and in character. It is honest beyond any commercial standard. It wishes to do everything that will promote the public good. But it is poorly organized for the task that belongs to it. Fewer men of larger capacity would do the task better. Ability is not lacking but it is pressed to the point of paralysis because of an infinitude of details and an unwillingness on the part of the great body of public servants to take responsibility. Everyone seems to be afraid of everyone. The self-protective sense is developed abnormally, the creative sense atrophies. Trust, confidence, enthusiasm—these simple virtues of all great business are the ones most lacking in government organization. We have so manv checks and brakes upon our work that our progress does not keep pace with the nation's requirements. We could save money for the government if we had more discretion as to how we should use that given us. For the body of the civil servants there should be quicker promotion or discharge and a sure insurance when disability comes. For the higher administrative officers there should be salaries twice as high as those now given and they should be made to feel that they are the ones responsible for the work of the department; the head being merely an adviser and a constructor of policies. As matters are now devised there are too few in the government whose business it is to plan. Every man is held to details, to the narrower view, which comes too often to be the department view or some sort of parochial view. We need for the day that is here and upon us men who have little to do but study the problems of the time and test their capacity at meeting them. In a word we need more opportunity for planning, engineering, statesmanship above, and more fixed authority and responsibility below.

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Secretary Lane has named some of the weaknesses of governmental administration, although not all. He could tell also of the want of coordination between the Executive and the Legislative Departments, and the want of continuity of policies by reason of changes in the personnel of the Congress and of the Departments, but he has said enough to suggest the inherent weakness of governmental management. The idea of having the government take over the important industries of the country can find lodgment only in minds of people who conceive of the industries as merely repeating a routine of operations instead of changing constantly under the stimulating influence of vigorous, ambitious, progressive life.

The Hon. Franklin D. Roosevelt, Assistant Secretary of the Navy, has written a letter in which, after referring to certain defects in departmental organization, he lays emphasis upon the failure to pay adequate salaries for demonstrated ability in the governmental service. He says:

"I do not hesitate to say that I could run the Navy Department more efficiently in every way with 15 per cent fewer employes if I could have authority to take the salaries of these employes and add the amount, in my discretion, to the pay of those who are experts in their own line of work and who would command far higher pay in private employ. I have in mind the men who are making good, but will not stay under present conditions."

The faults which these officials describe are inherent in the government service. It is inevitable that the public business will be conducted by general rules, with a relatively small exercise of discretion and personal judgment, and upon the general assumption that everybody is the equal in ability and deserts of everybody else. Nor is that situation likely to change, for those are the popular ideas of the time.

Inspiring Discontent.

This is a period of criticism and widespread discontent. In a changing and progressive society there are always conditions which may be bet-

tered and everybody should want to move forward, but there is also a great amount of ignorant and destructive fault-finding which simply creates distrust and confusion. The farmers prospered generally during the war, and most farm products are still bringing remunerative prices, but there have been declines in recent months. We have been giving warning for the last year that these were likely to come and have consistently urged that as prices of farm products declined the farmer would have just claim to lower prices upon the things he had to buy.

Reports from the west say that farmers have been taking severe losses during the past winter upon cattle fattened upon high-priced corn, and grain prices have declined also. This, of course, is regrettable, but it is not the first time that high prices have broken, either in farm products or in other commodities. It is extraordinary, however, to read comment like the following, coming from a widely circulated farm journal of deservedly high standing:

> We have no proof that this (drive on farm prices) has all been planned out by certain master minds pulling the strings in Chicago, New York, London and Paris, but the circumstantial evidence is pretty strong. A lot of farmers need money by March 1. Grain has been dammed back in the country through the difficulty in getting cars to move it. So everything is prepared for a very heavy drop. When corn was selling at very high prices, it was very difficult for farmers to get cars. Now that the price is going down the farmer is assured that he is going to have all the cars he can use. It's a great game. It furnishes one more evidence of the need of the sort of organization we have been urging for two years past. The farmer has got to employ men who understand this big game to work for him. Without such help he can do nothing except draw into his shell and cut down production.

Here is a suggestion that cars were perhaps held back when speculators were interested in high prices and supplied freely when they were interested in breaking prices, and that prices of farm products have been put down by a "great game" of manipulation. This is a charge that can be neither proven nor disproven, and which people will believe or disbelieve according to their opinion of its inherent probability. In the central markets, where there is general familiarity with the influences which make prices, it will be treated as too preposterous for comment; but in the farming districts no doubt many will be disposed to accept the opinion, coming from a reputable source.

The car supply has been in the hands of managers representing the government, and there is not the slightest reason for impugning their integrity. Manufacturers, merchants, exporters, in fact all shippers, have been annoyed and embarrassed by the deficiencies of the railroad service, in the same manner as the farmers. There is no mystery about the state of the railroads; they need to have a large amount of new capital expended upon them, but the owners of capital have been preferring other investments.

It is true that prices were high at the time when farmers could not get cars; the slow movement of the crop would be itself an influence for higher prices in the central markets; but prices were still higher last summer before the new crop was made; they have been declining since July and the falling off in the export demand, due to the exchange situation, probably has been the chief factor in the whole downward movement. It is a sufficient explanation by itself.

Lowering the Efficiency of Society.

The chief comment, however, to be made upon such fault-finding is that it tends to disrupt the social organization and to lower its efficiency, to the injury of all. The suggestion is thrown out that unless conditions are made satisfactory the farmer can do nothing except "draw into his shell and cut down production." This is the same virus that is constantly instilled into the wage-earner, by telling him that increased production only increases the employer's profits, with the result that the farmer must pay more for all that he buys. There can be no progress with this spirit of suspicion and antagonism dominating every branch of production, for it is always possible to put a sinister interpretation upon events. Society can be kept in a constant turmoil by this vague and insidious class of criticism. The enemies of the existing order proceed upon the theory that it is possible by this means to create such a general state of discontent that a revolution will result. That is their "great game," and it is unfortunate that many people who do not at all sympathize with that purpose should ignorantly help them in playing it.

Common Interest in General Prosperity.

The idea that the great interests of the business world are engaged in a continuing conspiracy to wrong the farmer or the laboring man is of course a complete misconception. The great manufacturing industries are all interested in the widest and largest possible distribution of their products, and this is dependent upon the purchasing power of the whole people. Traders, banks, railways, and every interest worth mentioning are interested in general prosperity. Moreover, it is a great mistake to suppose that the business interests of the cities are united upon common questions of opinion and policy. They are divided and in competition. Upon the League of Nations, and national and social questions generally, there are as many opinions in Wall Street as there are elsewhere. Only very ignorant people are guided in their opinions by the purpose to be against what some one else favors. As to whether wheat will go up or down there is always a division of opinion and of interest in the markets.

All Improvements and Economies Welcome.

It is right, of course, for farmers to investigate the markets and to know every turn of the road between themselves and the consumer. The farmer

should not regard himself as outside the business organization but as a part of it; there is as much responsibility upon him to deal with the social problems as upon anybody, and he will find an honest desire to cooperate with him in all branches of business life. Everything that can be done which actually will simplify the organization for distributing and exchanging the products of industry and effect economies between producer and consumer is desirable. Every such saving, which cuts out unproductive effort or expense, is a gain to society. There is no occasion for any controversy about such efforts. They are welcome; they justify themselves, if successful, without argument. There is no occasion for acrimony or for political agitation in accomplishing these changes. No class conflict is involved in them. Everybody in the social organization must justify his claims to consideration by the services he is able to render.

Cooperation to be Encouraged.

It is reported that one of the organizations of railroad employes has either established factories or contracted with factories for the making of clothing, gloves, etc., for its members. This is an interesting experiment, well worth trying. There is talk of cooperative arrangements between organizations of farmers and wage-earners, and all such experiments are worthy of study and trial. There is economy in organized buying because it relieves the producer of cost and expense in marketing his products. It can be made successful if people will work together.

The business men of the cities are actively competing with each other, and are constantly on the look-out for new methods which will enable them to serve the public more efficiently and economically. The mail order houses, chain store systems, cooperative manufacturing schemes, etc., illustrate these efforts. They are not all successful, nor are all the cooperative enterprises inaugurated by farmers and wage-earners successful, but the field is open and free. Progress along this way is not so exciting as by revolution, but it is very much more sure without being anywhere near so risky.

Responsibility to Society.

The great need of the time, in the midst of all the agitation, is a larger sense of responsibility to the whole social body on the part of every class and group. There is need of clearer appreciation of the fact that each individual and group is bound to seek its own welfare by means which also promote the welfare of all, and not by means which are harmful to the social body. This is not the time to emphasize group interests. There is too much class consciousness and exaggeration of class grievances. Nobody makes much headway by dwelling on his grievances, particularly if they are imaginary, which is usually the case. It is perfectly certain that if every group and individual in the industrial organization would determine for the next year to give its best efforts to the single-minded purpose of increasing production so far as lies in its power, a wonderful improvement in general conditions would ensue, and every group and individual would share in the benefits.

Live Stock Prices and Conditions.

Touching upon the decline in the price of meats which has attended upon the decline of exports in the past year, the "Live Stock Report," published by Clay, Robinson & Co., a leading commission house in the western markets, recently had the following to say:

> That the tremendously increased demands for meats during the war stimulated production, we, of course, know. We came to not only rely upon this war-created demand, but to look upon it as a permanent matter. Then comes word of contracts canceled, of the depreciated value of packers' stocks abroad through declining standards of exchange, of sharply reduced shipments of meats across the water. Then we find we are over-supplied. We blame the packer, because it is the universal habit—without analyzing the situation. We forget the immutable law of supply and demand. Just as surely as supply exceeds demand will values recede. It has ever been so and always will be. It is what the cattle feeder is up against this winter. It is discouraging, of course, to further production; it tends to discontent and an antagonistic attitude to whatever conditions or individuals seem in the mind of the loser blameable. Yet it is but part of the process of readjustment. We have got to learn to adapt ourselves to present uncertainties— to look ahead as far as the light will show, the light of sane judgment; to base our operations upon conservative foundation—to avoid extravagance, speculation and any attempt to discount the future.

The drought which prevailed last year over the northern section of the old cattle range territory, including the States of Wyoming, Montana and the western half of the Dakotas, was very damaging to the live stock interests and additional damage has been done by the severe winter just closed. A competent authority estimates that one-half of the cattle and sheep held in this territory were forced out last summer and fall, some being shipped out for wintering, but most of them sold. The severe storms of the winter have caused a loss of perhaps 10 per cent. of the cattle and sheep remaining in these states, and owing to the scarcity of feed subjected the stock growers to a very heavy burden of expense. The heavy snowfall, however, gives promise of good grass conditions the coming summer.

United States Steel Corporation.

The suit by the Attorney General to dissolve the United States Steel Corporation has come finally to an end, the Supreme Court by a 4 to 3 decision, two justices not participating, having affirmed the decision of the lower Court against the petition. The Court found by practical tests, as the public has long since found, that the corporation is not a monopoly in restraint or trade. It is a large factor in the iron and steel business and an influential factor, but it is not a controlling factor in the sense of being able to fix prices at

will, and in the practically unanimous opinion of the trade its influence is a wholesome and beneficial one.

The history of this Corporation illustrates a fact which is generally true of the large business concerns, to wit: that the fears which they inspire are not realized. The opposition to them is usually inspired by apprehensions about what their policies may be. The charges seldom relate to injuries that have been suffered, but to injuries that it is thought may be suffered.

Experience shows that these large corporations are interested in stabilizing industry, in building up a large and steady volume of business, in protecting and serving their patrons in the most efficient manner. The Steel Corporation has a consistent record of this kind. Its influence has been against wide price fluctuations. At times the independents, who in nearly every branch of the industry have fully one-half the producing capacity, have undersold it and at other times they have been well above it, as they are now. For the last year the Corporation has exerted a powerful influence to hold prices down.

The public is interested in economical methods in industry, for in the long run economies in production tell in the selling price of the product. Even though the selling price remains the same, the public gains by economies which increase the profits of the producer, because those profits are usually invested for the enlargement and improvement of the industry, to the ultimate benefit of the public.

Development of the Steel Industry.

The steel industry, like nearly every other industry, has been developed by means of the profits made in it, and that development has been enormously beneficial to the public in cheapening the price and increasing the use of steel in all the industries. No longer ago than 1880 the total production of steel in the United States for the year was only 1,200,000 tons. In 1910 it had risen to 26,000,000. It had increased more than twenty fold while the population had not doubled. And the steel-making capacity of the country has nearly doubled since 1910. If one will consider the part which steel plays in production in all lines he will appreciate the significance of these figures.

Reminiscences of a Veteran.

Mr. Joseph G. Butler, Jr., of Youngstown, Ohio, one of the veterans of the iron and steel industry, has recently celebrated the fiftieth anniversary of his beginning in it, and in an address before the American Iron and Steel Institute he has given a very interesting sketch of the development which he has witnessed. We give below an extract descriptive of the changes accomplished in methods of transporting iron ore from Lake Superior and in the development of the blast furnace. He says:

Following the development of the Mesaba Range came astounding improvements in the mining and transportation of ore which, together with the tremendous supply of the Lake Superior region, have had much to do with the phenomenal growth of our iron and steel industries.

When we began to use Lake Superior ores the ordinary cargo of a lake boat was 500 tons. It required several days to load and unload this cargo at every point where it had to be handled—four in all. The ore cars then in use carried only ten tons. When their capacity was increased to twenty-five tons and boats were built that would carry 1,000 tons, we thought our problems were solved. Now we have vessels loading as high as 12,000 tons at the upper ports in one or two hours with one or two men on the dock, and unloading their cargo directly into fifty-ton cars in about the same time, with practically no manual labor.

In the old days men with shovels loaded the ore at the mines into small cars, from which it was transferred to railroad cars. They handled it again the same way four times before it reached the furnace, for even the hopper car had not then been invented. Aside from being the most laborious task to which a human back was ever bent, this was extremely costly and slow beyond your belief. Now we handle this vast tonnage entirely by machinery. Steam shovels mine the ore; it flows by gravity into great vessels; huge unloaders transfer it to railroad cars, and car dumpers empty it under ore bridges—all the work being done by power and at a speed little short of miraculous. These things were all unknown a half century ago. They are the product of the tireless brains and the unflagging energy of the men who have built our industries to their present colossal proportions.

The improvements in blast furnace construction and practice referred to in previous paragraphs had much of their inspiration from these changes in the method of handling ores. With them came changes in size, lines and equipment. These changes were most marked during the period between 1860 and 1890. In 1850 there were few furnaces in the country that could produce 150 tons of iron in a week, and the average did not reach that figure until about 1865. In 1890 a furnace at the Edgar Thomson Works built under the design of Julian Kennedy and operated under the direction of Captain Bill Jones startled the world by yielding 502 tons of iron in one day and 2,462 tons in one week. That was then believed to be the limit of production, but it is now quite usual for stacks to exceed this figure, and there are a few producing 600 tons per day.

In 1860 the total output of pig iron in the United States was 821,223 tons. In 1890 it had risen to 9,202,703 tons. During 1916 there were made in America 39,434,797 tons of furnace iron of all grades.

This tells the story of the elimination of a vast amount of the hardest kind of manual labor, that of shoveling ore and of even moving it by the old wheelbarrow, by devoting profits to the construction of machinery. The additional profits thus obtained went into more machinery, but at every step there was a reduction of costs and prices, which brought iron and steel into larger use in the industries, while the wages of labor in the industry were steadily advancing. Mr. Stuyvesant Fish, formerly President of the Illinois Central Railroad Company, stated recently in a public letter that the first purchase of steel rails of which he had knowledge cost $230 per ton. Prior to the outbreak of the late war the price was $28.50 per ton.

The great car dumpers of which Mr. Butler tells will lift a car containing 110 tons of coal,

dump the load, and repeat the process at the rate of thirty cars per hour, with no manual labor beyond pressing a button.

Stock Dividends.

The Supreme Court has held that stock dividends are not taxable as income to the recipients. The decision is criticised in some quarters, but to the business man's practical view seems to be entirely sound.

The fact is that our system of income taxes discriminates against corporate organization, as a corporation pays upon its earnings and the share-holders must pay again upon receiving the same earnings into their possession. An individual proprietor doing the same business and making the same net earnings would pay but once. This is the case because the law treats the corporation as an independent entity, with an income distinct from the incomes of its share-holders. The share-holders are taxable upon any income that is transferred to them from the earnings of the corporation, but the Court says that a stock dividend transfers nothing. It only gives a claim upon any values that the corporation may distribute in the future. The stock dividend of itself neither creates nor distributes values. It is merely a new division of the certificates of ownership in the corporation. When dividends are declared the new certificates will receive their share and this income is taxable.

Stock dividends are usually resorted to when it is desired to retain a portion of the earnings in the business for its enlargement. These earnings have been taxed to the corporation, but the Court holds that they should not be taxed to the individual share-holder because they have not been transferred to him. He has, indeed, a proportionate interest in them, whether new stock is issued against that interest or not.

In short, it is only as values pass from the corporation to the share-holder that the latter is taxable upon them. In case the share-holder sells his shares and realizes a profit the latter is taxable.

Proposed Taxation in France.

We cannot but admire the spirit and resolution with which the new government in France is attacking the great network of internal and external problems which are a legacy of the war. Among the questions of domestic policy, the most important is what is known in European countries as balancing the budget, that is, making receipts equal to outlay. Monsieur Millarand, in forming his recent Cabinet, proclaimed his intention of surrounding himself with men of high technical competance, and for the first time in many years the portfolio of Finance Minister is in the hands of a practical banker. Monsieur Francois-Marsal is confronted with the task of raising $1,300,000,000 of additional taxation for the current year. It is apparent that he appreciates in a high degree the dangers of discouraging the investment of new capital by excessive and vexatious forms of taxation and that he has sought to spread the burden as widely as possible over the entire economic life of the nation.

At the present time, in addition to the income tax in France, special taxes are levied on advertisements, automobiles, stock exchange operations, real estate transactions, wines and spirits, electricity, gas, mineral waters, playing-cards, etc. Monsieur Francois-Marsal does not propose to abate or modify these taxes but to provide supplementary imposts which will be sufficient to balance the budget.

The Frenchman, even more than the Englishman or the American, is opposed to forms of taxation which oblige him to state all the sources of his income and to reveal to the Treasury agents his commercial and financial relationships. He is also hostile to all kinds of retroactive taxation. The present Finance Minister has shown a commendable tact and understanding of the French nature in taking into account in his new proposals these susceptibilities of his countrymen. Therefore, he desires to abolish the provision requiring the employer of labor to furnish information about the salary of his employes; to suppress surtaxes on war profits, etc. Apropos of retroactive taxation he said:

> Relying on existing legislation many of our companies have paid dividends to their stockholders during the past few years, and if these retroactive propositions should be incorporated in the law, their stockholders would be taxed on these dividends. Now it seems to me that to levy and collect these taxes offers insurmountable difficulties. First of all, the personnel would have to be largely increased and would necessarily be recruited from inexperienced persons who could not perform the highly technical work of classifying and verifying the countless declarations which would come in. At the same time, unless it is possible to verify absolutely the declaration which the tax-payer would make concerning all increases in his fortune, including extraordinary war profits, it would be a great mistake to attempt to collect such taxes, for there would be a great opportunity for fraud and the fisc, without gaining its point, woud simply harass the taxpayer.

Taxes on Sales and Luxuries.

In order to avoid all vexatious modes of imposition, and at the same time to create a tax whose incidence would be practically universal and would be everywhere recognized as just, Monsieur Francois-Marsal would levy a tax of 1½ per cent on all commercial transactions, whether wholesale or retail, with the exception of taxes on bread, and of certain categories of business which are already amenable to special taxes, such as the tickets and rates of public carriers, stock exchange operations, etc.

Where commercial transactions or purchases fall within the category of luxuries or of certain kinds of business where the transaction is a service rather than a sale of merchandise, the tax instead of 1½ per cent will be 10 per cent. This would include retail sales of merchandise and all commodities which have been already classified by law as articles of luxury, to include all food and drink bought or consumed in places which are considered as establishments dealing in articles of luxury. The 10 per cent tax also applies to all kinds of brokerage and commission business.

This mode of taxation is being received with favor by the business leaders of France and in fact has been approved by the Chambers of Commerce, generally throughout the country. It is believed that this form of taxation will not only raise the large sum needed to balance governmental income and expenditure but is the most just form of taxation and the most democratic which can be devised to meet existing needs. Here in the United States we are confronted with very grave problems arising from inequalities of taxation which often retard the investment of capital in productive enterprises, and we shall watch with great interest the application in France of these new forms of taxation.

France Looks to America.

While we seek to profit by the example of common sense and ingenuity which France is about to give in the matter of taxation, France is turning to us for aid of the most practical sort. Apropos of the memorandum recently prepared by the economic section of the Supreme Council, the *Temps* remarks:

> No matter how you look at the question, American collaboration is absolutely necessary. We should develop our exports, and while waiting until our economic situation permits us to do this we require every form of credit, commercial and banking, and above all we need to borrow heavily abroad. This is the only true remedy. As we have said, time and again, in the huge credit operations demanded, the aid of the United States is not only desirable but imperative, and if we fail to understand it, we shall suffer the consequences. Apparently, in some of the conversations which recently took place in London, this aspect of the question was not fully realized and we were rather surprised to note that the memorandum which was sent to the Supreme Council made no mention of America in this respect. Could it be that the Allied governments, feeling that perhaps America has become indifferent to European problems, will try to rehabilitate Europe without the help of the United States? France, particularly, would suffer from any attempt to solve her problems which would leave America out of the reckoning.
>
> Attempts by various governments to handle the exchange situation by novel expedients will only succeed in delaying the rehabilitation of Europe. The only remedy is by resort to credit.

In view of the immense losses sustained by France in men, in material of every kind, and the immense economic waste caused by the long period of war, the rapidity of her recovery is astonishing.

It should not be forgotten that the disturbance in French exchange is not merely a French problem. It is also an American problem, effecting vitally our export commerce and our whole industrial life. As Monsieur Millerand remarked recently:

> The question of raising the value of the franc appears to be imperfectly understood by the American people. We ask nothing better than increased exports. We must first, however, manufacture, and we cannot make things for foreign consumption until our factories are in order. Do our American friends realize that part of our territory is still unproductive, and that it will take some years to re-establish our industries in their former flourishing condition?

Bond Market.

The breaking up of winter found its reflection in the bond market during the month of March. As the weeks progressed bonds became firmer and the investment demand showed signs of stimulation. Throughout the month sterling exchange advanced and prices on the New York Stock Exchange steadily improved with several specialties, notably the motors, registering substantial advances. These influences have undoubtedly been reflected in the bond market.

Liquidation of foreign government loans from abroad continued with firmer prices, particularly in the Japanese issues. Anglo French 5s steadily advanced until a price of 98 1/16 was reached as compared with a low price of 93½ on February 10.

The Supreme Court decision which forces the Interstate Commerce Commission to fix railroad valuations on the basis of the present values instead of original costs stimulated the general market and following this decision the general list moved forward, with second grade rails showing substantial gains. The average of ten second grade rails listed on the Exchange registered an advance of over ½% compared with last month. Industrials, while less active than other classes during the month, were firm with advancing quotations in some of the newer issues. General Electric 6s of 1940, which were offered last month at 94½ sold up to par.

The general improvement in conditions throughout the month stimulated new offerings in substantial volume and the amounts increased until March 24, when four new issues totaling $57,200,000 were released. These included $25,000,000 Western Electric 7% Bonds, $15,000,000 Anglo American Oil 7½% Notes, $12,000,000 Canadian Pacific 6% Equipments and $5,200,000 Virginian Railway 6% Equipments, all of which were well absorbed.

The combined average of 40 active corporate issues reported by the Wall Street Journal on March 27 was 77.68, compared with 77.66 for February 26 and 85.11 for March 27, 1919. The issues used in this comparison do not reflect the constructive change which has been evidenced in the bond market during March.

Government and Municipal Issues.

The Liberty Loan market ran counter to the general market for practically the entire month in all issues except the 3½s. From their low price of 94, these bonds continued to advance until a price of 97.70 was reached toward the end of the month. The Second and Fourth 4¼s were weak, the former selling at a new low price of 89.10. Municipal bonds shared the general weakness of the Liberty issues and were fairly inactive during the first two weeks of the month. Later, however, in the absence of the usual amount of new offerings, prices advanced and dealers reported a good demand for issues yielding in the neighborhood of 4½% to 5%. The decline in municipal prices has undoubtedy limited the amount of offerings, for certain municipalities are restricted as to the amounts which they may pay for their municipal borrowings.

Following the action of the Boston Stock Exchange a number of the larger dealers in New York have agreed on the following rates of commission on Liberty transactions:

$1.25 on	$1,000	denominations	equal	to	1/8 of 1%
1.00 on	500	"	"	"	.20
.75 on	100	"	"	"	3/4 of 1%
.50 on	50	"	"	"	1%

There was a good demand for United States Government Bonds for circulation; the 2s of 1930 sold as high as 101 and the 4s of 1925 at 106¾. An issue of $1,000,000 Porto Rica Public Improvement 4½s was sold on a 4.70% basis.

An indication of municipal prices for the month is found in the following sales:

$3,000,000 State of Maine 5% Serial Bonds. to yield from 4.80% to 5¼%.
1,800,000 Bayonne, New Jersey, 5½% Bonds on a 5.10% basis.
416,000 Plainfield, New Jersey, 5% Bonds on a 4.80% basis.
528,000 Franklin County, Ohio, 5½% Bonds on a 5.10% basis.

The City of Cleveland offered $2,750,000 5% Serial Bonds but received no bids.

Canadian issues have been increasing in popularity. During the month $5,000,000 Province of Ontario 5½% Bonds, $2,850,000 Province of Manitoba 6% Bonds and $7,000,000 Province of Quebec 6% Bonds were offered and promptly sold on a 7% basis. This is the first offering of Province of Quebec bonds in the American market for some time past. An issue of $2,400,000 City of Quebec 6% Bonds was offered at par in Canada.

Railroad and Corporate Issues.

Industrial and equipment issues have found particular favor among the new offerings of the month. The largest industrials being:

$35,000,000 Texas Company Three Year 7% Notes were subscribed in one day on a 7⅜% basis.
25,000,000 Western Electric Five Year 7% Bonds were subscribed in one day on a 7⅜% basis.
15,000,000 Anglo American Oil Five Year 7½% Notes were greatly oversubscribed at par and interest.

Among the equipment issues were:

5,200,000 Virginian Railway 6% Serial Equipments on a 7% basis and
12,000,000 Canadian Pacific Railway 6% Serial Equipments to yield 6⅝% and 6¾%.

The Canadian Northern Railway also sold $12,000,000 5½% Notes maturing in 1922 and 1924 to yield about 7%.

Public Utilities as a class were steady, with a good undertone. Local traction bonds were active and strong, Interboro Rapid Transit 7% Notes advancing 8 points to 74½ while the Refunding 5% Bonds advanced 4¾ points to 57½. Dealers specializing in public utility issues reported a wider interest among buyers at present low levels, with the result that the close of the month showed advances of from 2 to 5 points in issues which had heretofore been extremely inactive. Some of the larger new offerings include:

$5,500,000 Detroit Edison 7% Bonds to yield 7%.
3,500,000 Oklahoma Gas & Electric 7% Notes to yield 7¾%.
3,000,000 Brooklyn Edison 6% Bonds to yield 7%.
2,400,000 Cincinnati Gas & Electric 6% Notes to yield 7%.
2,000,000 Dayton Power & Light 7% Notes to yield 7½%.
2,000,000 Denver Gas & Electric 7% Notes to yield 8%.
2,500,000 Georgia Railway & Power 7% Notes to yield 7.45%.

Dealers who have handled these issues reported excellent distribution.

Discount Rates Approved by Federal Reserve Board up to March 29, 1920.

Federal Reserve Banks	Discounted bills maturing within 90 days (including memberbanks' 15-day collateral notes) secured by		Bankers acceptances maturing within 3 months	Trade acceptances maturing within 90 days	Discounted bills secured otherwise than by Government war obligations, also unsecured, maturing within	
	Treasury certificates of indebtedness	Liberty bonds and Victory notes			90 days (including member banks' 15-day collateral notes)	91 to 180 days (agricultural and live-stock paper)
Boston	5	5½	5	6	6	6
New York	5	5½	5	6	6	6
Philadelphia	5	5½	5	6	6	6
Cleveland	4¾	5½	5	6	6	6
Richmond	5	5½	5	6	6	6
Atlanta	5	5½	5	6	6	6
Chicago	5	5½	5½	6	6	6
St. Louis	5	5½	5	6	6	6
Minneapolis	4¾	5½	5	5½	6	6
Kansas City	5	5½	5	6	6	6
Dallas	4½	5	5	5	6	6
San Francisco	5	5½	5	6	6	6

Note—Rate on paper secured by War Finance Corporation bonds 1 per cent. higher than the rate on commercial paper.

FIRST NATIONAL BANK

in MINNEAPOLIS

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Capital and Surplus - - - - $10,000,000

MINNEAPOLIS TRUST COMPANY

Acts as Executor, Administrator, Trustee and Guardian

115 South Fifth Street, Minneapolis.

The stockholders of The First National Bank and Minneapolis Trust Company are identical.